

REPORT OF THE AUDITOR-GENERAL TO THE MPUMALANGA PROVINCIAL LEGISLATURE AND THE COUNCIL ON THE THEMbisile Hani LOCAL MUNICIPALITY

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying financial statements of the Thembisile Hani Local Municipality, which comprise the statement of financial position as at 30 June 2011, and the statement of financial performance, statement of changes in net assets and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages xxx to xxx.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA), and for such internal control as management determines necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-General's responsibility

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996) and section 4 of the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), my responsibility is to express an opinion on these financial statements based on my audit.
4. I conducted my audit in accordance with International Standards on Auditing and General Notice 1111 of 2010 issued in Government Gazette 33872 of 15 December 2010. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
6. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

Basis for qualified opinion

Accumulated surplus

7. The opening balance of the accumulated surplus was reduced by R65 725 287, which included a journal of R12 969 837, to record long-outstanding reconciling items in the reconciliation between the cash and cash equivalents per the bank statements and the cash book. These items were described on the reconciliation as payments processed in the bank statements but not recorded in the cash book. The municipality could not provide supporting documentation to verify the reconciling items. The entity's records did not permit the application of alternative audit procedures. Consequently, I could not determine the valuation, allocation and completeness of the accumulated surplus.

Trade and other receivables

8. Included in trade and other receivables amounting to R17 018 814 disclosed in note 4 to the financial statements was an amount of R14 228 018, due to a journal processed to clear long-outstanding items in the reconciliation between the cash and cash equivalents per the bank statements and the cash book. These items were described on the reconciliation as payments recorded in the bank statements but not recorded in the cash book. The municipality could not provide supporting documentation to verify the reconciling items. The entity's records did not permit the application of alternative audit procedures. Consequently, I could not determine the valuation, allocation, completeness and rights of trade and other receivables.

Trade and other payables

9. Included in trade and other payables was an amount of R2 171 099, due to a journal processed to clear long-outstanding items in the reconciliation between the cash and cash equivalents per the bank statements and the cash book. These items were described in the deposits received as recorded in the bank statements but not recorded in the cash book. The municipality could not provide supporting documentation to verify the reconciling items. The entity's records did not permit the application of alternative audit procedures. Consequently, I could not determine the valuation, allocation, completeness and obligations of trade and other payables.

Property, plant and equipment

10. I was unable to verify the existence of infrastructure assets and assets under construction amounting to R57 875 766 as disclosed in note 3 to the financial statements. The assets could not be traced to the maps or the physical assets. The entity's records did not permit the application of alternative audit procedures regarding the existence of infrastructure assets and assets under construction.

Revenue

11. There was no system of internal control over licences and permits revenue on which I could rely for the purposes of my audit, and there were no satisfactory procedures that I could perform to obtain reasonable assurance that revenue had been properly recorded. Consequently, I was unable to obtain sufficient evidence on the completeness, accuracy and occurrence of licences and permits revenue of R6 225 601 as disclosed in the statement of financial performance.
12. There was no system of internal control over service charges on which I could rely for the purpose of my audit, and there were no satisfactory procedures that I could perform to obtain reasonable assurance that revenue had been properly recorded. Consequently, I was unable to obtain sufficient evidence on the completeness, accuracy and occurrence of service charges revenue of R28 646 786 as disclosed in note 10 to the financial statements.

13. There was no system of internal control over property rates on which I could rely for the purpose of my audit, and there were no satisfactory procedures that I could perform to obtain reasonable assurance that revenue had been properly recorded. Consequently, I was unable to obtain sufficient evidence on the completeness, accuracy and occurrence of property rates revenue of R3 394 967 as disclosed in note 10 to the financial statements.

Cash flow statement

14. The Standard of Generally Recognised Accounting Practice, GRAP 2 *Cash Flow Statements* requires a presentation of a cash flow statement, summarising the entity's operating, investing and financing activities. I was unable to obtain sufficient appropriate audit evidence for the completeness and accuracy of the cash flow information, due to the other bases for the qualification that affected the statement of financial performance and the statement of financial position, as listed above.

Irregular expenditure

15. I could not satisfy myself as to the completeness of irregular expenditure to the amount of R60 021 977 (2010: R20 522 975) as disclosed in note 31 to the financial statements, as management only disclosed the amounts identified through the audit process.

Leases

16. The Standard of Generally Recognised Accounting Practice, GRAP 13 *Leases* requires disclosure of the future commitment of operating lease payments. The municipality incurred operating lease expenditure of R1022 586. The future operating lease payment commitment was not disclosed in the financial statements. I was unable to obtain sufficient audit evidence for the amounts that should have been disclosed.

Qualified opinion

17. In my opinion, except for the possible effects of the matters described in the basis for qualified opinion paragraphs, the financial statements present fairly, in all material respects, the financial position of the Thembisile Hani Local Municipality as at 30 June 2011, and the financial performance and cash flows for the year then ended in accordance with SA Standards of GRAP and the requirements of the MFMA.

Emphasis of matter

18. I draw attention to the matter below. My opinion is not modified in respect of this matter:

Restatement of corresponding figures

19. As disclosed in note 26 to the financial statements, the corresponding figures for 30 June 2010 were restated as a result of errors identified during 2011 in the financial statements of the municipality at, and for the year ended, 30 June 2010.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

20. In accordance with the PAA and in terms of General Notice 1111 of 2010 issued in Government Gazette 33872 of 15 December 2010, I include below my findings on the annual performance report as set out on pages xx to xx and material non-compliance with laws and regulations applicable to the municipality.

Predetermined objectives

Usefulness of information

21. For the selected objectives, 100% of the planned targets were not measurable in identifying the required performance.

Planned and reported measures not well defined

22. For the selected objectives, 100% of the planned measures were not clear, as unambiguous data definitions were not available to allow for data to be collected consistently.

Compliance with laws and regulations

Annual financial statements and annual report

23. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements in capital assets, current assets, liabilities, revenue, expenditure and disclosure items identified by the auditors were subsequently corrected, but the uncorrected material misstatements resulted in the financial statements receiving a qualified audit opinion.
24. The mayor did not table the 2009-10 annual report of the municipality in the council within seven months after the end of the financial year, as required by section 127 of the MFMA.
25. The performance report for the financial year under review was not prepared as required by section 46 of the Municipal Systems Act of South Africa, 2000 (Act No. 32 of 2000) (MSA), read with section 121(3)(c) of the MFMA.

Budgets

26. The mayor did not submit all quarterly reports on the implementation of the budget and the financial state of affairs of the municipality to the council within 30 days after the end of each quarter, as required by section 52(d) of the MFMA.
27. The accounting officer did not always submit the monthly budget statements to the mayor and the provincial treasury, as required by section 71(1) of the MFMA.

Internal audit

28. The municipality did not develop and implement mechanisms, systems and processes for auditing the results of performance measurement as part of its internal audit processes, as required by section 45(1)(a) of the MSA and Municipal Planning and Performance Management Regulation 14.
29. The internal audit processes and procedures did not include assessments of the functionality of the municipality's performance management system and whether the system complied with the requirements of the MSA, as required by Municipal Planning and Performance Management Regulation 14.
30. The internal auditors of the municipality did not audit the performance measurements on a continuous basis and did not submit quarterly reports on their audits to the municipal manager and the performance audit committee, as required by Municipal Planning and Performance Management Regulation 14.

Procurement and contract management

31. Awards were made to providers whose directors or principal shareholders were persons in the service of other state institutions, in contravention of the requirements of SCM Regulation 44. Furthermore, the providers failed to declare that they were in the service of the state, as required by SCM Regulation 13(c).

Human resource management

32. The municipal manager did not provide job descriptions for each post on the staff establishment, as required by section 66(1)(b) of the MSA.

Expenditure management

33. The accounting officer did not take reasonable steps to prevent irregular expenditure, as required by section 62(1)(d) of the MFMA.

Revenue management

34. A credit control and debt collection policy was not maintained and implemented, as required by section 96(b) of the MSA.

Asset management

35. The accounting officer did not take all reasonable steps to ensure that the municipality had and maintained a management, accounting and information system that accounted for the assets of the municipality, as required by section 63(2)(a) of the MFMA.

36. The accounting officer did not take all reasonable steps to ensure that the municipality had and maintained an effective system of internal control for assets (including an asset register), as required by section 63(2)(c) of the MFMA.

INTERNAL CONTROL

37. In accordance with the PAA and in terms of *General Notice 1111 of 2010 issued in Government Gazette 33872 of 15 December 2010*, I considered internal control relevant to my audit, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters reported below are limited to the significant deficiencies that resulted in the basis for the qualified opinion, the findings on the annual performance plan and the findings on compliance with laws and regulations included in this report.

Leadership

38. The accounting office did not implement effective human resource management to ensure that adequate and sufficiently skilled resources were in place and that performance was monitored.
39. The accounting officer did not establish and communicate policies and procedures to enable and support the understanding and execution of internal control objectives, processes and responsibilities.

Financial and performance management

40. The accounting officer did not implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information was accessible and available to support financial and performance reporting.
41. The accounting officer did not implement controls over daily and monthly processing and reconciling of transactions.
42. The accounting officer did not review and monitor compliance with applicable laws and regulations.

Governance

43. The accounting officer did not ensure that there was an adequately resourced and functioning internal audit unit that identified internal control deficiencies and recommended corrective action effectively.
44. The accounting officer did not ensure that the audit committee promoted accountability and service delivery through evaluating and monitoring responses to risks and providing oversight over the effectiveness of the internal control environment, including financial and performance reporting and compliance with laws and regulations.

*Auditor-General
Nelspruit*

30 November 2011



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